

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE

TUESDAY, 15 FEBRUARY 2022 AT 14:00 HOURS
IN COMMITTEE ROOM C, MARGARET STREET, COUNCIL HOUSE
EXTENSION, [VENUE ADDRESS]

A G E N D A

1 NOTICE OF RECORDING/WEBCAST

The Chair to advise/meeting to note that this meeting will be webcast for live or subsequent broadcast via the Council's meeting You Tube site (www.youtube.com/channel/UCT2kT7ZRPFCXq6_5dnVnYlw) and that members of the press/public may record and take photographs except where there are confidential or exempt items.

2 APOLOGIES

To receive any apologies.

3 DECLARATIONS OF INTERESTS

Members are reminded that they must declare all relevant pecuniary and non pecuniary interests arising from any business to be discussed at this meeting. If a disclosable pecuniary interest is declared a Member must not speak or take part in that agenda item. Any declarations will be recorded in the minutes of the meeting.

4 EXEMPT INFORMATION - POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC

a) To consider whether any matter on the agenda contains exempt information within the meaning of Section 1001 of the Local Government Act 1972, and where it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information for the reasons outlined in the report.

RESOLVED - That in accordance with Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to information) (Variation order) 2006, the public be excluded from the meeting

during consideration of those parts of the agenda designated as exempt on the grounds that it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press and public were present there would be disclosure to them of exempt information.

5 - 12

5 **MINUTES**

To confirm and sign the minutes of the meeting of the Committee held 29 November 2021.

6 **ASSURANCE SESSION - CABINET MEMBER VULNERABLE CHILDREN'S AND FAMILIES PORTFOLIO**

(45 minutes allocated)(1405-1450)

Verbal discussion

Cabinet Member Vulnerable Children's and Families Portfolio

7 **ASSURANCE SESSION - CABINET MEMBER HOMES AND NEIGHBOURHOODS PORTFOLIO**

(45 Minutes Allocated) (1450 to 1535)

Verbal discussion

Cabinet Member Homes and Neighbourhoods

8 **EXTERNAL AUDITORS PROGRESS REPORT**

(10 minutes allocated) (1535 - 1545)

Report of the External Auditors

13 - 22

9 **PROCUREMENT OF EXTERNAL AUDIT - 2023 - 2028**

(10 minutes allocated)(1545 to 1550)

Briefing on the next external audit tender process and the state of the external market.

23 - 28

10 **OUTSTANDING MINUTES**

Information for noting.

11 **DATE OF THE NEXT MEETING**

To note the date of the next meeting on 29 March, 2022.

12 **OTHER URGENT BUSINESS**

To consider any items of business by reason of special circumstances (to be specified) that in the opinion of the Chair are matters of urgency.

13 **AUTHORITY TO CHAIR AND OFFICERS**

Chair to move:-

'In an urgent situation between meetings, the Chair jointly with the relevant Chief Officer has authority to act on behalf of the Committee'.

BIRMINGHAM CITY COUNCIL

AUDIT COMMITTEE 29 NOVEMBER 2021

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON MONDAY, 29 NOVEMBER 2021 AT 1400 HOURS IN THE MAIN HALL, BIRMINGHAM & MIDLANDS INSTITUTE, 9 MARGARET STREET, BIRMINGHAM, B3 3BS

PRESENT:-

Councillor Grindrod in the Chair;

Councillors Bore, Bridle, Jenkins, Morrall, Quinnen and Tilsley

NOTICE OF RECORDING/WEBCAST

- 388 The Chair advised and the meeting noted that this meeting would be webcast for live or subsequent broadcast via the Council's You Tube site (www.youtube.com/channel/UCT2kT7ZRPFCXq6_5dnVnYlw) and that members of the press/public may record and take photographs except where there are confidential or exempt items.

The business of the meeting and all discussions in relation to individual reports was available for public inspection via the web-stream.

APOLOGIES

- 389 Apologies were submitted on behalf of Councillor Akhtar for her inability to attend the meeting.
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DECLARATIONS OF INTEREST

- 390 Members were reminded that they must declare all relevant pecuniary and non-pecuniary interests relating to any items of business to be discussed at this meeting. If a pecuniary interest was declared a Member must not speak or take part in that agenda item. Any declarations would be recorded in the minutes of the meeting.
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EXEMPT INFORMATION – POSSIBLE EXCLUSION OF THE PRESS AND PUBLIC

The Chair noted that there was a private item in that agenda Item 11 - External Auditors IT Audit Report contained Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime under Schedule 12, Part 1, section 7.

Upon consideration, it was:

391 **RESOLVED:-**

That, in accordance with Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to information) (Variation order) 2006, the public be excluded from the meeting during consideration of those parts of the agenda designated as exempt on the grounds that it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press and public were present there would be disclosure to them of exempt information.

Agenda Item 11 - External Auditors IT Audit Report - Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.

MINUTES – AUDIT COMMITTEE – 19 OCTOBER 2021

392 **RESOLVED:-**

That the Minutes of the last meeting held on 19 October 2021 were confirmed and signed by the Chair.

ASSURANCE SESSION - CABINET MEMBER FINANCE & RESOURCES PORTFOLIO

The Chair welcomed the Cabinet Member Finance and Resources and appropriate officers to the Assurance Session..

The Cabinet Member Finance and Resources gave an update on his portfolio.

Members of the Committee commented and asked questions which the Cabinet Member Finance and Resources and Officers responded to.

The Chair thanked the Cabinet Member Finance and Resources and Officers for their attendance and asked the Committee to note the updates given.

Upon consideration, it was:

393 **RESOLVED:-**

That the updates received on the Cabinet Member Finance and Resources and Officers's portfolio be noted.

TREASURY RISK MANAGEMENT ARRANGEMENTS & DRAFT TREASURY MANAGEMENT STRATEGY 2022/23

The following report of the Director of Council Management was submitted: -

(See document No.1)

Officers spoke to the report.

Upon consideration, it was:

394

RESOLVED:-

That the Audit Committee notes and considers the Council's treasury risk management arrangements as set out in the attached draft 2022/23 Treasury Management Policy, Strategy and Treasury Management Practices.

At this point in the meeting the Chair proposed and it was agreed to allow consideration of Agenda Item 11

The Chair noted that Committee would move to private session for the item due to the sensitive nature of the content of the report which if revealed in public may potentially pose cyber intrusion risks to our BCC systems

EXCLUSION OF THE PUBLIC

395

RESOLVED:-

That, in view of the nature of the business to be transacted, which includes exempt information of the category indicated, the public be now excluded from the meeting:-

Exempt Paragraph 7 - Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime

EXTERNAL AUDITORS IT AUDIT REPORT

The following private report of the External Auditors was submitted: -

(See document No.2)

Following discussions on External Auditors IT Audit Report, the Committee moved back into the public meeting.

396

RESOLVED:-

To note the report from the External Auditors and to accept the recommendations within the exempt report.

BIRMINGHAM AUDIT - HALF YEAR UPDATE REPORT 2021/22

The following report of the Assistant Director - Audit & Risk Management was submitted: -

(See document No.3)

Sarah Dunlavey Assistant Director, Audit & Risk Management, made introductory comments relating to the report and responded to questions from Members.

Upon consideration, it was:

397

RESOLVED:-

That the level of audit work undertaken and assurances provided be noted.

CORPORATE ASSURANCE FRAMEWORK

The following report of the Assistant Director - Audit & Risk Management was submitted: -

(See document No.4)

Sarah Dunlavey Assistant Director, Audit & Risk Management, made introductory comments relating to the report and responded to questions from Members.

Upon consideration, it was:

398

RESOLVED:-

That the development of a Corporate Assurance Framework and the ongoing work through its stages of maturity be noted.

The Chair advised that the next agenda item is an Equal Pay update from the Deputy Monitoring Officer in relation to MOU signed with the Unions in March of this year. Matters that relate to on ongoing legal negotiations between legal officers and a separate group of Equal Pay claimants represented by a firm of no-win-no-fee solicitors are legally privileged and unable to be discussed in public or private session.

EQUAL PAY UPDATE

399

The Assistant City Solicitor and Deputy Monitoring Officer gave a verbal update on Equal Pay and responded to questions and comments from Members.

The Chair indicated that further updates should be brought forward to the Committee in line with what had previously been requested by the Committee

and the Assistant City Solicitor and Deputy Monitoring Officer undertook to do that.

EXTERNAL AUDITORS PROGRESS REPORT

Jon Roberts and Laurelin Griffiths of Grant Thornton gave a brief verbal update and responded to questions from Members.

400

RESOLVED:-

To note the update from the External Auditors.

OMBUDSMAN REPORT CONCERNING A COMPLAINT ABOUT HOUSING SOLUTIONS AND SUPPORT SERVICE

The following report of the Managing Director of the City Housing Directorate was submitted: -

(See document No.5)

The Chair noted that there had been previous comments about the use of the Committee's time, and it had been questioned if spending time on Ombudsman reports was worthwhile. He however emphasised that it was important to learn from such reports and he was considering how such reports were dealt with at Committee in the future. He suggested that the agenda could have a correspondence section where such items could be reported without presentation and Members having had advance notice of the item could indicate they had questions and would like the report to be presented on. During the ensuing discussion Members noted that previously in June annually a report on all Ombudsman cases was submitted to the Committee. Such a report could include actions taken by the Directorates to resolve the complaint as it was noted that Directorates had the responsibility to correct wrongdoings not this Committee. The Assistant City Solicitor and Deputy Monitoring Officer advised that the Constitution set out that Ombudsman reports should come to the Audit Committee and that he would discuss this issue further with the Chair.

The Assistant Director, Housing Solutions & Support Services made introductory comments relating to the report.

Upon consideration, it was:

401

RESOLVED:-

That the Managing Director of City Housing's response to the Local Government and Social Care Ombudsman's recommendations be noted.

SCHEDULE OF OUTSTANDING MINUTES

The following Schedule of Outstanding Minutes was submitted:-

(See document No.6)

402

Members were provided with updates to the outstanding actions.

- **Minute 334 29/06/2021** - Responses sent to Members however, at the 19 October meeting, Members were not content with the responses received. The Chair requested for relevant Councillors to email him with details of the additional information for a further response to be provided by the service area. The Chair received an email from Councillor Bore outlining additional information however, no email received from Councillor Morrall. Further response to the restructure of the Street Scene Service area emailed to members on 26/11/2021. However Councillors Bore and Morrall did not consider the matter completed but agreed that as far as the Audit Committee was concerned the outstanding minute could be discharged – Completed and discharged.
- **Minute 334 29/06/2021** - An update was provided at this meeting – Completed and discharged
- **Minute 350 26/07/2021** – A response had been received in relation to Councillor Jenkin's request for copy of the contract as between the former Director Education and Skills and the Council. In respect of the demographics (i.e. gender, race etc) and what was happening to re-engage children as there was a lot of gang culture and CSE's when children drop out of schools an email had not yet been sent to Members. In respect of the request for up to date figures on elective home education, children missing education and children missing from home/care, this should be provided end of October/November and it was noted that A response is being prepared by Sue Harrison (New Interim Director Education and Skills) and Andy Couldrick (Bham Children's Trust).
- **Minute 364 30/09/2021** – The Chair had written to write to the Resources Overview and Scrutiny Committee highlighting transparency issues raised on partner funding for the CWG and was awaiting a response. In terms of the request for officers to review the risk and learnings CWG partner funding linked to CIPFA's work this was Business as usual ongoing work. In respect of the Committee's agreement for a review to be shared at a future meeting around reflecting on challenges of business grants and how effective the Council was on delivering these on behalf of Government, an update provided by Peter Bishop at the 19/10/2021 meeting as part of the Assurance Session for the Deputy Leader and additionally a response was emailed to Members. Completed and discharged
- **Minute 365 30/09/2021** – A response had been emailed to Members relating to request for a further explanation as to why the remaining

Audit Committee – 29 November 2021

£5.1 million of business grants was not released to businesses –
Completed and discharged

- **Minute 377 19/10/2021** – Awaiting an update
- **Minute 379 19/10/2021** – A response to Members relating to the further information on Lender Option Borrower Option's had been sent – Completed and discharged
- **Minute 381 19/10/2021** – Part (ii) A response to Members relating to safeguarding measures Voluntary organisations and Early Year providers were expected to have in place and the support provided by BCC had been sent. Part (ix), Relating to a report being provided to the Audit Committee on its findings once the root and branch review on Procurement, Commissioning, assurances, systemic challenges were completed. A presentation had been circulated to Members outlining the approach to this work. A report on the findings will be shared with the Committee in March 2022. The Chair proposed that Parts (ii) and (ix) be discharged which was agreed - Parts (ii) and (ix) completed and discharged

DATE OF THE NEXT MEETING

- 403 The next meeting is scheduled to take place on Tuesday, 25 January 2022 at 1400 hours in the Birmingham & Midlands Institute, Main Hall.

OTHER URGENT BUSINESS

- 404 The Chair noted that the Committee's Annual Report to City Council was to be presented to the Council Meeting on 1 February 2022. He intended that the report be emailed to all Members for comment and he encouraged Members to engage with the process.

The Chair also noted that the Committee had an independent advisor and he urged Members to contact the advisor for advice if needed.

AUTHORITY TO CHAIRMAN AND OFFICERS

- 405 **RESOLVED:-**

That in an urgent situation between meetings the Chair, jointly with the relevant Chief Officer, has authority to act on behalf of the Committee.

The meeting ended at 1636 hours.

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CHAIR

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to:	AUDIT COMMITTEE
Report of:	Director of Council Management
Date of Decision:	15 February 2022
Subject:	APPOINTMENT OF EXTERNAL AUDITOR 2023-28
Wards affected: All	
1	Purpose
1.1	To inform the Audit Committee of the Council's decision regarding the procurement route for appointing an external auditor for the five financial years 2023/24 to 2027/28.
1.2	Full Council on 1 February 2022 considered the options and passed a motion to opt-into the sector-led option for the appointment of external auditors. The Full Council report is attached as an Appendix to this report.
2	Decisions recommended:
	Members are recommended to:
2.1	Note the Council's motion to opt-into the sector-led option for the appointment of external auditors.

Contact Officer: Rebecca Hellard
Telephone No: 0121 303 2950
E-mail address: rebecca.hellard@birmingham.gov.uk

Contact Officer: Mohammed Sajid
Telephone No: 0121 303 3313
E-mail address: mohammed.sajid@birmingham.gov.uk

3 Compliance Issues:

- 3.1 Are Decisions consistent with relevant Council Policies, Plans or Strategies?
The Council has a statutory duty to appoint an external auditor.
- 3.2 Relevant Ward and other Members/Officers etc. consulted on this matter:
The Chair of the Committee has been consulted.
- 3.3 Relevant legal powers, personnel, equalities and other relevant implications (if any):
The work of the external auditors is governed by the Code of Practice issued by the National Audit Office in accordance with the Local Audit and Accountability Act 2014.
- 3.4 Will decisions be carried out within existing finances and resources?
Yes. External Audit is a statutory function that needs to be procured. The national collective should offer the best route to achieving Value for Money
- 3.5 Main Risk Management and Equality Impact Assessment Issues (if any):
As detailed in the Appendix.

4 Relevant background/chronology of key events:

- 4.1 The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Council opted into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23.
- 4.2 Councils have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.
- 4.3 Full Council on 1 February 2022 considered the options and passed a motion to opt-into the sector-led option for the appointment of external auditors. The Full Council report is attached as an Appendix to this report.

Signature:

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Rebecca Hellard, Director of Council Management

Appendices

Appendix 1 – Full Council Report 1 February 2022 APPOINTMENT OF EXTERNAL AUDITOR FROM 2023/24

APPENDIX 1

Birmingham City Council

City Council

1 February 2022



Subject: APPOINTEMENT OF EXTERNAL AUDITOR FROM 2023/24

Report of: Director of Council Management

Report author: Sara Pitt, Director of Finance

Does the report contain confidential or exempt information? ☐ Yes ☒ No

If relevant, state which appendix is exempt, and provide exempt information paragraph number or reason if confidential :

1 Executive Summary

- 1.1 This report sets out proposals for appointing the external auditor to the Council for the accounts for the five-year period from 2023/24
- 1.2 The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Council opted into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23.
- 1.3 PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. All local government bodies need to make important decisions about their external audit arrangements from 2023/24. Councils have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.
- 1.4 The report concludes that the sector-wide procurement conducted by PSAA will produce better outcomes for the Council than a procurement undertaken locally.

2 Motion

- 2.1 That the Council accepts Public Sector Audit Appointments' invitation to opt into the sector-led option for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023.

3 Background

- 3.1 Under the Local Government Audit & Accountability Act 2014 (“the Act”), the Council is required to appoint an auditor to audit its accounts for each financial year. The Council has three options;
- To appoint its own auditor, which requires it to follow the procedure set out in the Act.
 - To act jointly with other authorities to procure an auditor following the procedures in the Act.
 - To opt into the national auditor appointment scheme administered by a body designated by the Secretary of State as the ‘appointing person’. The body currently designated for this role is Public Sector Audit Appointments Limited (PSAA).
- 3.2 In order to opt into the national scheme, a council must make a decision at a meeting of the Full Council.

The Appointed Auditor

- 3.3 The auditor appointed at the end of the procurement process will undertake the statutory audit of accounts and Best Value assessment of the council in each financial year, in accordance with all relevant codes of practice and guidance. The appointed auditor is also responsible for investigating questions raised by electors and has powers and responsibilities in relation to Public Interest Reports and statutory recommendations.
- 3.4 The auditor must act independently of the Council and the main purpose of the procurement legislation is to ensure that the appointed auditor is sufficiently qualified and independent.
- 3.5 The auditor must be registered to undertake local audits by the Financial Reporting Council (FRC) employ authorised Key Audit Partners to oversee the work. As the report below sets out there is a currently a shortage of registered firms and Key Audit Partners.
- 3.6 Auditors are regulated by the FRC, which will be replaced by a new body with wider powers, the Audit, Reporting and Governance Authority (ARGA) during the course of the next audit contract.
- 3.7 Councils therefore have very limited influence over the nature of the audit services they are procuring, the nature and quality of which are determined or overseen by third parties.

Pressures in the current local audit market and delays in issuing opinions

- 3.8 Much has changed in the local audit market since audit contracts were last awarded in 2017. At that time the audit market was relatively stable, there had been few

changes in audit requirements, and local audit fees had been reducing over a long period. 98% of those bodies eligible opted into the national scheme and attracted very competitive bids from audit firms. The resulting audit contracts took effect from 1 April 2018.

- 3.9 During 2018 a series of financial crises and failures in the private sector led to questioning the role of auditors and the focus and value of their work. Four independent reviews were commissioned by Government: Sir John Kingman's review of the Financial Reporting Council (FRC), the audit regulator; the Competition and Markets Authority review of the audit market; Sir Donald Brydon's review of the quality and effectiveness of audit; and Sir Tony Redmond's review of local authority financial reporting and external audit. The recommendations are now under consideration by Government, with the clear implication that significant reforms will follow. A new audit regulator (ARGA) is to be established, and arrangements for system leadership in local audit are to be introduced. Further change will follow as other recommendations are implemented.
- 3.10 The Kingman review has led to an urgent drive for the FRC to deliver rapid, measurable improvements in audit quality. This has created a major pressure for audit firms to ensure full compliance with regulatory requirements and expectations in every audit they undertake. By the time firms were conducting 2018/19 local audits during 2019, the measures they were putting in place to respond to a more focused regulator were clearly visible. To deliver the necessary improvements in audit quality, firms were requiring their audit teams to undertake additional work to gain deeper levels of assurance. However, additional work requires more time, posing a threat to the firms' ability to complete all their audits by the target date for publication of audited accounts. Delayed opinions are not the only consequence of the FRC's drive to improve audit quality. Additional audit work must also be paid for. As a result, many more fee variation claims have been needed than in prior years.
- 3.11 This situation has been accentuated by growing auditor recruitment and retention challenges, the complexity of local government financial statements and increasing levels of technical challenges as bodies explore innovative ways of developing new or enhanced income streams to help fund services for local people. These challenges have increased in subsequent audit years, with Covid-19 creating further significant pressure for finance and audit teams.
- 3.12 None of these problems is unique to local government audit. Similar challenges have occurred in other sectors, where increased fees and disappointing responses to tender invitations have been experienced during the past two years.
- 3.13 The scope of a local audit is fixed. It is determined by the Code of Audit Practice (currently published by the National Audit Office)¹, the format of the financial statements (specified by CIPFA/LASAAC) and the application of auditing standards regulated by the FRC. These factors apply to all local audits irrespective of whether

¹ MHCLG's Spring statement proposes that overarching responsibility for Code will in due course transfer to the system leader, namely ARGA, the new regulator being established to replace the FRC.

an eligible body decides to opt into PSAA's national scheme or chooses to make its own separate arrangements. The requirements are mandatory; they shape the work auditors undertake and have a bearing on the actual fees required.

- 3.14 There are currently nine audit providers eligible to audit local authorities and other relevant bodies under local audit legislation. This means that a local procurement exercise would seek tenders from the same firms as the national procurement exercise, subject to the need to manage any local independence issues. Local firms cannot be invited to bid. Local procurements must deliver the same audit scope and requirements as a national procurement, reflecting the auditor's statutory responsibilities.

4 Options considered and Recommended Proposal

Appoint own external auditor

- 4.1 The Council may elect to appoint its own external auditor under the Act, which would require the council to;
- Establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Council itself, and the members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing to which audit firm to award a contract for the Council's external audit.
 - Manage the contract for its duration, overseen by the Auditor Panel.
- 4.2 This option has the advantage of some Council involvement in the procurement. It does entail cost in terms of time and money to administer the procurement and there is no assurance a better tender response will be received as this option does not have the advantage of economies of scale.

Appoint jointly with other councils

- 4.3 The Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.
- 4.4 This option has the advantage of some Council involvement in the procurement although it is diluted with other partners. It does entail cost in terms of time and money to administer the procurement and there is no assurance a better tender

response will be received as this option does not have the advantage of economies of scale than the PSAA route

- 4.5 The Council has sought the views of West Midlands Councils as well as Core Cities councils. Nearly all are intending to opt-into the PSAA sector-led option, and this would not be a realistic option.

Join the national auditor appointment scheme

- 4.6 PSAA is specified as the 'appointing person' for principal local government under the provisions of the Act and the Local Audit (Appointing Person) Regulations 2015. PSAA let five-year audit services contracts in 2017 for the first appointing period, covering audits of the accounts from 2018/19 to 2022/23. It is now undertaking the work needed to invite eligible bodies to opt in for the next appointing period, from the 2023/24 audit onwards, and to complete a procurement for audit services. PSAA is a not-for-profit organisation whose costs are around 4% of the scheme with any surplus distributed back to scheme members.

- 4.7 In summary the national opt-in scheme provides the following:

- the appointment of a suitably qualified audit firm to conduct audits for each of the five financial years commencing 1 April 2023;
- appointing the same auditor to other opted-in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints;
- managing the procurement process to ensure both quality and price criteria are satisfied. PSAA has sought views from the sector to help inform its detailed procurement strategy;
- ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period;
- minimising the scheme management costs and returning any surpluses to scheme members;
- consulting with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed;
- consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk; and
- ongoing contract and performance management of the contracts once these have been let.

- 4.7 Although the Council will have no direct involvement in the procurement of an external auditor the PSAA will seek the Council's views on any preferences.

5 Risk Management

5.1 The principal risks are that the Council:

- fails to appoint an auditor in accordance with the requirements and timing specified in local audit legislation; or
- does not achieve value for money in the appointment process.

5.2 These risks are considered best mitigated by opting into the sector-led approach through PSAA.

6 Legal implications

6.1 Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.

6.2 Section 8 governs the procedure for appointment including that the Council must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant Council is a local Council operating executive arrangement, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council under those arrangements.

6.3 Section 12 makes provision for the failure to appoint a local auditor. The Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.

6.4 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a sector-led body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing person.

7 Financial Implications

7.1 The duty to specify scales of fees is one of PSAA's statutory functions as the appointing person. Before setting a scale of fees, it is required to consult with opted-in authorities, relevant representative associations of local authorities and relevant bodies of accountants. The PSAA also consults other key stakeholders to ensure that the consultation is genuine and as productive as possible. Following consultation, the scale of fees is published on the website.

7.2 The scale fees for individual opted-in authorities are normally based on the scale fee for the previous year, in theory reflecting the auditor's assessment of audit risk and complexity. The PSAA would only expect variations from the scale fee to occur where these factors are significantly different from those identified and

reflected in the original fee. During the current tender period the audit fees have increased by some 50% for all Councils as a result of the increased audit requirements explained above.

7.3 There is a likelihood that current external audit fee levels could increase when the current contracts end. The reasons for this higher cost of audit include:

- **Limited auditor resource.** This has come about because many of the former Audit Commission staff have now exited the audit sector. The firms are now having to invest in their own internal training programmes for a very limited public sector audit market.
- **Higher audit standards.** This is due to audit shortcomings that have been identified following the collapse of high-profile companies, the audit testing regime has been enhanced to help ensure greater reliance on audit conclusions.
- **Introduction of new auditing and accounting standards,** requiring additional audit work in a variety of areas, such as accounting estimates and leases.
- **Introduction of the new Code of Practice,** covering a wider scope on Value for Money and reporting, increasing the volume of work required by experienced staff.
- **Increased risk profile and complexity of local authorities.** For example, entering new transactions, investments, and new models of delivery, increasing the time input of senior and experienced staff.

7.2 It is clear that the scope of audit has increased, requiring more audit work. There are also concerns about capacity and sustainability in the local audit market.

7.3 Opting into a national scheme provides maximum opportunity to ensure fees are as realistic as possible, while ensuring the quality of audit is maintained, by entering into a large-scale collective procurement arrangement.




7.4 If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees from 2023/24.

8 Appendices

8.1 None

BIRMINGHAM CITY COUNCIL**AUDIT COMMITTEE****15 FEBRUARY, 2022****SCHEDULE OF OUTSTANDING MINUTES**

Note: As of 30 September 2021 – Responses to outstanding actions to be made within a 2 month period unless there is an exceptional reason.

	Completed & discharged
	Approaching 2 months
	2 months +

MINUTE NO./DATE	SUBJECT MATTER	COMMENTS
334 29/06/2021	<p><u>ASSURANCE SESSION – CABINET MEMBER STREET SCENE & PARKS PORTFOLIO</u></p> <p><u>Additional Recommendations:</u></p> <p>(ii) The Committee to receive a briefing note on the restructure of the Street Scene service area.</p> <p>(iii) The Committee to receive a formal response to the use of tips via Bromsgrove City Council as there was a lack of household recycling centres in the South of the City.</p>	<p>Rob James – Director for City Operations to lead on responses.</p> <p>Note: 15/10/2021 – Responses sent to Members however, at the 19 October meeting, Members were not content with the responses received. A further response to be provided by the service area.</p>
335 29/06/2021	<p><u>BIRMINGHAM AUDIT ANNUAL REPORT 2020/21</u></p> <p><u>Additional Recommendation:</u></p> <p>iii) That the Committee agreed for an update on procurement contracts, process, controls, and governance to be provided at a future committee.</p>	<p>Scheduled for 29 November Committee (Link into Finance & Resources Portfolio discussions)</p>
350 27/07/2021	<p><u>ASSURANCE SESSION – CABINET MEMBER EDUCATION, SKILLS & CULTURE PORTFOLIO</u></p> <p><u>Additional Recommendations:</u></p> <p>That the Audit Committee;</p>	<p>Kevin Crompton – Interim Director for Education & Skills to lead on responses.</p>

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	<p>(ii) Agreed for a written response outlining the number of children missing in education, children missing and the work around the safeguarding to be provided.</p> <p>(iii) Noted the Assistant Director – Legal Services & Deputy Monitoring Officer to review the contract for the interim Director for Education and Skills and provide this to Councillor Jenkins if appropriate.</p> <p>(iv) Agreed for a written response to be provided to Councillor Morrall around;</p> <ul style="list-style-type: none"> ➤ additional funding West Midlands Combined Authority 2021-22; ➤ costs associated with Acivico - replacing boilers in schools and maintaining buildings; ➤ who were the competitors as there was reduction in BAES fees and non-public programmes decreased income streams; ➤ IT Infrastructure – what was happening with Adult learning, laptops being provided; ➤ increasing home-schooling – figures pre-Covid and through Covid period; ➤ school exclusions – the demographics (i.e. gender, race etc) and what was happening to re-engage children as there was a lot of gang culture and CSE's when children drop out of schools. 	<p>Note: 18/10/2021- Responses sent to Members however, outstanding action on the up to date figures on elective home education, children missing education and children missing from home /care. This should be provided end of Oct/ Nov.</p>
<p>351 27/07/2021</p>	<p><u>OMBUDSMAN REPORT CONCERNING A COMPLAINT ABOUT HOME TO SCHOOL TRANSPORT DEPARTMENT</u></p> <p><u>Additional Recommendations:</u></p> <p>That the Audit Committee,</p> <p>(ii) Agreed for the Interim Director for Education & Skills to provide a formal response to the Audit Committee on the following areas of the complaints;</p> <ol style="list-style-type: none"> 1) when was the department and the council advised of the complaints, 2) which officers considered whether the matter should be taken up by the council, 3) whether the Cabinet Member was advised of the action to be considered by the city council, 	<p>Kevin Crompton – Interim Director for Education & Skills to lead on responses.</p> <p>Note: 18/10/2021- Responses sent to Members</p> <p>Completed & Discharged</p>

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	<p>4) what was the decision and if there was a decision not to investigate, whether the Cabinet Member was/was not informed of that decision,</p> <p>5) concerns highlighted by the Ombudsman around the 'right to appeal',</p> <p>6) The procedure that the service currently operated to be shared with members</p> <p>(iii) Agreed that once replies to the questions listed in part ii of this resolution were received, the Interim Chief Executive and Interim Director to provide a response to the process which would be in place to deal with the matters raised by the Committee.</p>	
364 30/09/2021	<p><u>STATEMENT OF ACCOUNTS 2020/21 & AFR PROGRESS REPORT</u></p> <p><u>Additional Recommendations:</u></p> <p><u>(Audit Findings Report Progress Report)</u></p> <p>That the Audit Committee;</p> <p>(ii) Agreed for the Chair of the Audit Committee to write to the Resources Overview & Scrutiny highlighting transparency issues raised on partner funding for the CWG.</p> <p>(iii) Agreed for officers to review the risk and learnings CWG partner funding linked to CIPFA's work.</p> <p>(iv) Agreed for a review to be shared at a future meeting around reflecting on challenges of business grants and how effective the Council was on delivering these on behalf of Government.</p>	<p>Councillor Grindrod</p> <p>Rebecca Hellard/ Mohammed Sajid</p> <p>Sarah Dunlavey/ Peter Bishop</p>
365 30/09/2021	<p><u>EXTERNAL AUDITORS PROGRESS UPDATE</u></p> <p><u>Additional Recommendation:</u></p> <p>That the Audit Committee;</p> <p>(ii) Requested further explanation as to why the remaining £5.1 million of business grants was not released to businesses.</p>	<p>Sarah Dunlavey/ Peter Bishop</p> <p>Note: 09/11/2021- Response sent to Members</p>
377 19/10/2021	<u>ASSURANCE SESSION – THE DEPUTY LEADER'S PORTFOLIO</u>	

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	<p><u>Additional Recommendations:</u></p> <p>That the Audit Committee;</p> <p>(ii) Agreed for a briefing to be offered to all Members of the Council on Cyber Security, GDPR and roles related to data processing.</p> <p>(iii) Agreed for a briefing note to be provided to Audit Committee on the shared learnings of the Complaints area from both from Audit Committee and Coordinating O&S Committee.</p>	Peter Bishop – Director, Digital & Customer Services to lead on responses.
379 19/10/2021	<p><u>STATEMENT OF ACCOUNTS 2020/21 & AUDIT FINDINGS REPORT</u></p> <p><u>Additional Recommendations:</u></p> <p>That the Audit Committee;</p> <p>(iii) Subject to any amendments or qualifications submitted from the external auditors, the Committee agree to delegate approval of the Statement of Accounts to the Chair of Audit Committee. In the event of amendments or qualifications to the Statement of Accounts, Members of the Audit Committee will determine whether a further and additional Audit Committee meeting in person is required to approve the Statement of Accounts.</p> <p>(iv) Noted further information on Lender Option Borrower Option's to be provided to Members.</p>	<p>Mohammed Sajid</p> <p>Mohammed Sajid</p>
381 19/10/2021	<p><u>REPORT INTO ISSUES RELATED TO THE TRAVEL ASSIST SERVICE</u></p> <p><u>Additional Recommendations:</u></p> <p>That the Audit Committee;</p>	
	<p>(ii) Noted for written response to be provided on safeguarding measures Voluntary organisations and Early Year providers were expected to have in place and support provided by BCC.</p>	Kevin Crompton – Interim Director for Education & Skills to lead on responses
	<p>(iii) Noted a continual reflection and update to be made on the actions to the responses of the recommendations in the Weightman's report.</p> <p>(iv) Agreed once the root and branch review on Procurement, Commissioning, assurances, systemic challenges were completed, a</p>	Deborah Cadman – Interim Chief Executive/ Rebecca Hellard – Director of Council Management

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	report to be provided to the Audit Committee on its findings.	

